

## **Student Construction Program FAQs**

**Originally prepared by the Iowa State Auditor's Office in 2009 and updated by the Iowa Department of Education in 2013. The questions and answers have been reviewed by both the State Auditor's Office and the Department of Education.**

**Question 1:** What fund should Districts use to account for a student construction program?

**Answer 1:** A student construction program is accounted for in an Enterprise Fund—Fund 64—as assigned in the Uniform Financial Accounting (UFA) chart of accounts. Districts using General Fund money (as discussed below) for allowable start-up costs of a new educational program - should transfer from the General Fund to the Enterprise Fund, as needed to pay specific invoices to the extent the new program was approved by the SBRC. SBRC approval is required to the extent that the District intends (1) to use General Fund for expenditures not otherwise allowable from the General Fund, (2) to transfer funds from one fund to another not otherwise specifically allowable in Iowa Code, or (3) to request modified allowable growth to provide additional budget authority for the new educational program.

To maintain proper accountability and control, and to avoid misstatement of the General Fund unspent balance, the District should not transfer a lump-sum from the General Fund to the Enterprise Fund.

**Question 2:** How can Districts finance the materials and supplies needed for subsequent student construction?

**Answer 2:** Districts should use the proceeds from the sale of previous student construction in the Enterprise Fund to purchase materials and supplies for subsequent student construction. If the proceeds are insufficient, Districts can borrow from any fund with funds available to loan, including the General, PPEL or SILO funds. Loans, including terms (interest, if any, and repayment timeline) should be approved by the Board of Education and documented in the Board minutes.

**Question 3:** Do Districts have to repay the loan by June 30 (year-end) or can the District's record an interfund loan receivable/payable at year-end?

**Answer 3:** The Department of Education issued a revised Declaratory Order, (Order), dated June 16, 2008 and further revised October 2009 available on the Department of Education's web site at:  
[http://educateiowa.gov/index.php?option=com\\_content&view=article&id=1572&Itemid=4213#AppealDecisions](http://educateiowa.gov/index.php?option=com_content&view=article&id=1572&Itemid=4213#AppealDecisions)

According to the Order, there are four requirements which Districts must comply with to issue loans between funds. Requirement number 4 (on page 3 of the Order) requires the

loan to be repaid before October 1st of the fiscal year following the fiscal year within which the loan occurred.

If a District executes a loan agreement as described in the Order, and due to unforeseen circumstances is unable to repay the loan by the following October 1st or organizational meeting of the Board, whichever is last, the District would need to make a request to the SBRC for a longer period in which to repay the interfund loan.

Loans outstanding at fiscal year-end would be recorded on the balance sheet as an interfund loan receivable or an interfund loan payable. Interfund operating transfers would not be used for this transaction.

**Question 4:** Can Districts expend PPEL and/or SILO dollars for student construction, rather than “loan” these funds to the Enterprise Fund, Student Construction account?

**Answer 4:** Yes. PPEL and/or SILO dollars may be used for the purchase of land as part of the start-up costs for a new District program, or if the sale proceeds of the previous student construction were insufficient to purchase land, but not for materials and supplies for a facility intended to be sold. The District would purchase the land directly from PPEL or SILO, as appropriate, without an interfund transfer. If the District prefers to transfer the fund from PPEL or SILO and purchase the land from the Enterprise Fund in order to account for all the costs of student construction in one fund, the District will need to request approval of the interfund transfer from the SBRC.

If students constructed a building or shed for the District, retained by and used by the District, PPEL and/or SILO dollars could be expended by the District for construction materials and supplies of the project. The project would be expended directly from the PPEL or SILO funds, as appropriate.

**Question 5:** What costs, if any, can be paid from the General Fund?

**Answer 5:** Districts may pay the start up costs of a new education program, the instructor’s salary and benefits, and other classroom costs and related student transportation from the General Fund. The District would pay the salaries, transportation, and other classroom costs directly from the General Fund and do not need approval from the SBRC. However, see the answer to Question 1 for circumstances where SBRC approval would be required.

**Question 6:** Are there any statutory requirements pertaining to the disposition of student-constructed buildings?

**Answer 6:** Chapter 297.22(3) of the Code of Iowa, states:

"The provisions in subsections 1 and 2 relating to the sale, lease, or disposition of school district property do not apply to student-constructed buildings and the property on which student-constructed buildings are located. The board of directors of a school district may sell, lease, or dispose of a student-constructed building and the property on which the

student-constructed building is located, and may purchase sites for the erection of additional structures, by any procedure which is adopted by the board."

The Board's approval of the procedures should be documented and included in the published Board minutes. If Districts do not already have a policy relating to the disposition of student constructed buildings/property, the Board of Directors should address this through Board policy. Approval of the procedures by the Board would not include authority to use a fund that could not otherwise have been used for this purpose by Iowa Code.

Chapter 98.76 of the Iowa Administrative Code, states:

"If the board of directors of a school district establishes a construction program whereby students learn a construction trade and the facility constructed is sold to cover costs of construction, the revenues and expenses will be accounted for in the student construction fund."

**Question 7:** Does 297.22(3) above allow outright purchase of sites (not loans) from General Fund, Student Activity Fund, or any other fund the Board selects?

**Answer 7:** No. Iowa Code 297.22(3) states that the Board may purchase sites by any board-adopted procedures, but does not include authority for the District to use a fund for this purpose that could not otherwise purchase land or construction materials.

For a new educational program, start up costs for the first student construction project may be paid from funds other than Enterprise. Land may be purchased from PPEL and SILO if the RPS allows pursuant to 298.3(1)"a"(1), and construction materials and supplies may be paid from the general fund for student construction intended to be sold. However, see the answer to question 1 for circumstances where SBRC approval is required.

**Question 8:** What is the best way to "sell" student-constructed buildings?

**Answer 8:** Typically, students complete the construction and the District advertises and offers the building on a competitive bid basis, publicly invited and opened. Districts could also build to specifications of a predetermined buyer provided the District does not use public funds to "subsidize" the cost of the construction. In this case, the District should have a written agreement with the buyer and the buyer must cover all costs needed for the construction including costs, if any, to transport the materials and supplies to the building site. The written agreement with the buyer should include provisions to ensure the buyer remains responsible for increases in cost; change orders; etc. and to ensure that no public funds are used for the land or construction.

**Question 9:** A School Foundation has requested a District to consider adopting/adding a program to construct student built houses with the house sale proceeds to be donated to the Foundation to provide funding for student scholarships.

The Foundation has asked the District to provide the funds to purchase the lot, materials, supplies and any contracted services that may need to be purchased and to pay for the insurance coverage. The students would supply the labor, as part of a high school curriculum program for high school credit. The instructor's salary and benefits would be paid from the General Fund.

**Answer 9:** Article III, Section 31 of the Constitution of the State of Iowa requires public funds to be spent for the public benefit. Districts cannot divert public funds to a Foundation for scholarships or other purposes. Since the District is funding the program, providing the insurance coverage and providing the financial support, the proceeds from the sale of the building are public funds and may not be given to a private, non-profit organization such as a Foundation.

**Question 10:** What does a District do with the balance remaining in the Student Construction Enterprise Fund when the board has discontinued its student construction program?

**Answer 10:** Any balance remaining in a Student Construction Enterprise Fund shall be retained for future student construction projects; however, in the case of a discontinued program, the balance may be transferred, by board resolution, to the General Fund or other fund from which the surplus originated.